

**Union Labor Life Insurance Company
as Underwriter/Administrator for the AFGE
Benefit Plan
in Washington, D.C.**

Report No. 30-04-94-040

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Union Labor Life Insurance Company (ULLICO), headquartered in Washington, D.C., was the subject of an audit we conducted that covered its underwriter and contract administrator activities on behalf of the American Federation of Government Employees (AFGE) for contract years 1988 through 1990. We also reviewed the AFGE Health Plan contract close-out period that ended May 31, 1993, in connection with the termination of its FEHBP contract on December 31, 1990. The reason for the close-out period is that when an FEHBP contract is terminated, the affected plan is generally given a two-year period to close out all business activities related to the contract. Such was the case in this instance.

Our audit was designed to determine whether or not costs charged to the FEHBP were in accordance with the terms of the contract and to assess the degree to which ULLICO's operations were in compliance with the laws and regulations governing the FEHBP. Our audit did not include a review of health benefits payments made on behalf of the underwritten plan.

The audit covered administrative expenses, credits, refunds and rebates as well as premium taxes charged to the FEHBP for the period stated above. AFGE subcontracted underwriting and contract administration responsibilities, including claims processing, to ULLICO for which ULLICO was reimbursed \$10,665,348 for the years in question. Our last audit of ULLICO as an underwriter for this plan covered contract years 1984 and 1985.

Our examination of ULLICO specifically included a review of the policies, procedures, and allocation methods for refunds, uncashed checks, and provider reimbursements. We also examined ULLICO's policies and procedures related to OPM's letter of credit system for 1990 and 1991 to determine the appropriateness of ULLICO's LOC activities in connection with the AFGE plan.

While ULLICO disagreed with many of our findings and in particular the methodology we used to ascertain some of the questioned costs, we identified \$1,771,712 in questioned costs, including \$1,559,819 in unallowable and unsupported administrative expenses that ULLICO charged to the FEHBP. Examples of some of these expenses include excessive rent for space in the ULLICO building, unsupported case management and cost containment fees, excessive leasing charges relating to the sale and leaseback of equipment and furniture, unallowable market and public relations expenses, as well as unsupported legal expenses. We determined that the FEHBP was also entitled to \$211,893 in lost investment income resulting from these questioned costs associated with AFGE's contract with OPM.

Auditors Question \$1,771,712 in Inappropriate FEHBP Charges